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FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC 6237
INFO RHEFDIA/DIA WASHINGTON DC
RHEFSNG/HMSNG WASHINGTON DC
RUZDHTR/HOTR WASHINGTON DC//USDAO ISLAMABAD PK//
RUWSMXI/AMC INTEL CEN SCOTT AFB IL//INO/J2-J//
RUEPVAA/CDR JSOC FT BRAGG NC//J2/HSE//
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RHLFABN/CDR USESUCOM ABNCP VAIHINGEN GE//ECJ2/ECJ3/ECJ5-A//
RHMFISS/CDR USSOCOM MACDILL AFB FL//SOJ2/HSE//
RHMFIUU/CDR USTRANSCOM TCJ2 SCOTT AFB IL
RHMFISS/CDRUSAREUR HEIDELBERG GE//AEAGB-IAD//
RUEAIIA/CIA WASHINGTON DC//DDI/OEA//
RUEPVAA/COMJSOC FT BRAGG NC
RHMFIUU/COMSOCCENT MACDILL AFB FL//SOCJ2/HSE//
RHEFDIA/DIA WASHINGTON DC//DHO-3//
RHEFDIA/DIA WASHINGTON DC//MIO-4//
RUETIAA/DIRNSA FT GEORGE G MEADE MD//M112/S2132HT//
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK
RUEKJCS/JOINT STAFF WASHINGTON DC//J2/J5-EUR//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DEKA/FCTP//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DXOA/TAAO//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG-CE-CM/IANG-GS-AA//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG/CE/CECM//
RUCXONI/ONI WASHINGTON DC//32/211//
RUEALGX/SAF WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC//USDP-ISA-ADMIN//
RULWAAM/STRATCOM IDHS-90 OFFUTT AFB NE//J22123//
RUEPGAA/US SURVEY DIV SHAPE BE
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RUEHIL/USDAO ISLAMABAD PK
RUCQSAB/USSOCOM INTEL MACDILL AFB FL
RUEHLO/AMEMBASSY LONDON 1912
RUEHNE/AMEMBASSY NEW DELHI 5832
RUEHBUL/AMEMBASSY KABUL 1239
RUEHLH/AMCONSUL LAHORE 8240
RUEHKP/AMCONSUL KARACHI 2641
RUEHPW/AMCONSUL PESHAWAR 7289
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC

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SUBJ: BI-WEEKLY REPORT ON ECONOMIC ISSUES, 02 DECEMBER, 2009

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TOP STORIES
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[1](#)1. (SBU) GOP Grants the Oil and Gas regulatory Authority (OGRA) Full Autonomy to Set Oil Prices Starting December 1. According to the Daily Times this decision stems from a recommendation agreed with the International Monetary Fund to give complete autonomy to regulatory authorities in the energy sector. With this change, OGRA will reportedly no longer need to consult with the Ministry of Petroleum and the Finance Ministry before setting oil prices, which are now to be set on a monthly basis, and will be more reflective of international prices.
(Comment: In the past, the GOP's efforts to try and raise domestic fuel prices have been met with stiff resistance from local politicians trying to keep their constituents happy. Even efforts

for more frequent adjustments have been frequently announced and then not fully implemented. If finally implemented, this step will reduce political interference in setting oil prices. The recent increase in world oil prices lends more urgency for the GOP to follow through on this decision.)

12. (SBU) Decline in Foreign Investment. On November 19, Business Recorder reported that foreign direct investment (FDI) declined by 53 percent during the first four months of the current fiscal year. According to the State Bank of Pakistan (SBP), FDI totaled \$621.8 million from July-October of this year compared to \$1.33 billion during the same period in FY09.

(Comment: According to our contacts in the banking sector, domestic shocks including power shortages, the deteriorating security situation, and growing political instability caused this significant capital flight. Foreign portfolio investment, however, surged by 266 percent during the same period, due primarily to Pakistan's low stock valuations compared to other regional players and which offers attractive investment opportunity to investors.)

13. (SBU) Local Refineries Facing Increasing Liquidity Problems. On November 23, Business Recorder reported that Pakistan's five refineries were "on the verge of a financial collapse," having fully exhausted their cash reserves and having reached their borrowing limits. According to the article, these cash flow problems are inhibiting their ability to secure crude oil supplies for processing. Refineries reported large losses from 2008-2009 and so

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far this year due to fluctuations in the price of petroleum products and crude oil.

(Comment: Contacts working in local refineries indicated that these financial problems are significantly affecting their operational efficiencies. If the government does not address the problem, refining operations may eventually no longer be commercially viable.)

14. (SBU) State Bank of Pakistan (SBP) Cuts Policy rate to 12.5 percent. On November 23, Business Recorder reported that the State Bank of Pakistan cut the policy rate by 50 basis points. According to the Central Bank, the overall level of risk and uncertainty in the economy has increased considerably, due to the present security situation, and the GOP's growing budgetary problems. Theoretically, the drop in the SBP's policy rate will help boost the local economy and increase investor confidence.

(Comment: The reduction in the policy rate has been one of the business community's longstanding demands, pointing to the high costs of doing business in Pakistan as a major impediment to investing locally. This decrease in the policy rate should help to partially address this concern.)

15. (SBU) Businessmen and Industrialists Oppose Increase in Power and Gas Tariffs. On November 18, the Daily Times reported that the GOP is contemplating increasing the power tariff by 12 percent and the natural gas tariff by 26 percent. If passed, this change will take effect in January 2010. In the article, Zahid Maqbool, president of the Islamabad Chamber of Commerce and Industry, criticized the GOP's "unilateral approach to decision making," while highlighting the fact that any increase in utility tariffs would significantly stifle local industry.

(Comment: Local businesses have indicated that they are already in financial hot water due to multiple factors including security concerns, power outages, high interest rates, and dwindling exports.

Increases to the power tariff would certainly add fuel to that fire; however failure to raise the rates will inevitably aggravate utility companies' existing cash flow problems.)

16. (SBU) Trademark Office Plans to Increase Filing and Registration Fees. On November 17, Dawn reported that the Karachi-based Trademark office is proposing a plan to increase trademark filing fees from \$11 to \$34 and registration fees from \$34 to \$107. This increase would help pay for the complete automation of the trademark registration process while cutting the trademark application process

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down to three months. Representatives from the local Chamber of Commerce are fully supportive of the improvement, which would enable businessmen to access their trademark information online.

STOCK MARKET

17. (SBU) The Karachi Stock Exchange (KSE)-100 Index ended the week of November 26 at 9,206.21, 0.48 percent up from the previous week's close on November 19. Overall market capitalization decreased slightly from \$31.99 to \$31.81 billion, with net foreign portfolio investment inflow of \$1.3 million. Political uncertainty and heightened security concerns kept investors wary. The State Bank's rate cut failed to move the market, as the majority of investors anticipated the move. Fertilizer, banking, and oil marketing companies outperformed in the market.

(Comment: KSE and brokerage firm contacts repeated that, despite minor economic improvements, "political and security" concerns continued to affect the market.)

PATTERSON